

Arizona Department of Environmental Quality

Procedural Review

As of May 31, 2018
Report 18-302



A Report to the Arizona Legislature

Lindsey Perry
Auditor General





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OFFICE OF THE
AUDITOR GENERAL

MELANIE M. CHESNEY
DEPUTY AUDITOR GENERAL

June 29, 2018

Misael Cabrera, Director
Arizona Department of Environmental Quality

We have performed a procedural review of the Arizona Department of Environmental Quality (Department) internal controls in effect as of May 31, 2018. Our review consisted primarily of inquiries, observations, and selected tests of internal control policies and procedures, accounting records, and related documents. The review was more limited than would be necessary to give an opinion on internal controls. Accordingly, we do not express an opinion on the effectiveness of internal controls or ensure that all deficiencies in internal controls are disclosed.

Specifically, we reviewed cash receipts, cash disbursements, procurement, payroll, capital assets, journal entries and transfers, travel, related parties, and information technology access controls.

As a result of our review, we noted certain deficiencies in internal controls that the Department's management should correct to ensure that it fulfills its responsibility to establish and maintain adequate internal controls. Our findings and recommendations concerning these deficiencies are described in the accompanying summary.

Should you have any questions concerning our procedural review, please let us know.

Sincerely,

Jay Zsorey, CPA
Director, Financial Audit Division





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Department should improve controls over employees' personnel documentation

Criteria—In accordance with the State of Arizona Accounting Manual (SAAM), Topic 55, §20, an employee should complete and sign a direct deposit form. The direct deposit form should be retained for 3 fiscal years after the information has been superseded or becomes obsolete in accordance with the Arizona State Library, Archives and Public Records retention schedule.

Condition and context—The Arizona Department of Environmental Quality (Department) did not have adequate procedures to ensure all payroll documentation is maintained for each of its employees. Specifically, the Department did not retain direct deposit request forms for four of ten employees tested. Auditors performed additional test work and determined that the employees were properly paid.

Effect—The Department may be making improper or incorrect direct deposit payments for employees' payroll.

Cause—The Department did not have a process to ensure that all payroll documentation was retained in personnel files. In addition, the Department misinterpreted the records retention schedule and eliminated direct deposit forms older than 4 years from its personnel files.

Recommendation—The Department should ensure that all payroll records are completed and retained for the necessary time to ensure compliance with the Arizona State Library, Archives and Public Records retention schedule. The Department should review its current personnel files and update its records for any missing documentation.



Department should establish policies and procedures to ensure monies are spent from proper funds

Criteria—To comply with Arizona Revised Statutes (A.R.S.) §49-544(B), the Department may use emissions inspection fund monies only as outlined in the statute.

Condition and context—The Department did not have adequate controls over payments made with its emissions inspection fund. Specifically, the Department paid approximately \$790,000 from the emissions inspection fund for its travel-reduction program, which is an unallowable expenditure under this fund. Travel reduction program expenditures are allowable if paid from another fund.

Effect—The Department paid \$790,000 in unallowable expenditures for the review period July 1, 2017 through February 28, 2018, from its emissions inspection fund monies and is in noncompliance with A.R.S. §49-544(B).

Cause—The Department used the emissions inspection fund monies because other resources were not available to pay for travel-reduction program expenditures.

Recommendation—The Department should perform a detailed review of its expenditure transactions and approval process to ensure monies are spent from the correct fund and with the proper resources. Expenditures paid out of the emissions inspection fund should be in accordance with A.R.S. §49-254(B). The Department should review expenditures made during the review period and reimburse the emission inspection fund for any unallowable expenditures.



Department should update and maintain a current and accurate list of all capital assets

Criteria—In accordance with the SAAM, Topic 25, Section 40, each department must annually perform a physical inventory of its capital assets to ensure accountability of the State’s assets. In addition, all capital assets should be properly tagged as the State’s property, and capital assets that are no longer needed should be surplus and removed from the capital assets list.

Condition and context—The Department had not completed an inventory of its capital assets for approximately 10 years. As a result, for six of ten capital assets tested, the Department could not locate the asset. The Department surplus three of the assets in a previous year but did properly remove them from the capital asset list. The remaining three assets were unaccounted for.

Effect—The Department did not have a reliable listing of capital assets, which could result in capital assets being lost or stolen without the Department’s knowledge.

Cause—The Department did not make performing an annual capital asset inventory a priority for approximately 10 years and had not used proper methods to remove surplus capital assets from its capital assets list.

Recommendation—The Department should perform an annual inventory to ensure all capital assets are accounted for in its records and missing assets are investigated and eliminated from the records. Further, the Department should ensure surplus assets are properly removed from the capital asset list in a timely manner.

DEPARTMENT RESPONSE



Douglas A. Ducey
Governor

ARIZONA DEPARTMENT OF ENVIRONMENTAL QUALITY



Misael Cabrera
Director

June 19, 2018

Ms. Lindsey Perry, Auditor General
State of Arizona Office of the Auditor General
2910 N. 44th Street, Suite 410
Phoenix, AZ 85018

Re: Response to the June 2018 Procedural Review.

Dear Ms. Perry:

The Arizona Department of Environmental Quality (“ADEQ”) appreciates the opportunity to respond to the findings and recommendations of the procedural review performed by the Office of the Auditor General.

Below, please find the department’s response of the audit findings.

Finding 1: The Department should improve controls over employees’ personnel documentation.

Response: As recommended, ADEQ will ensure the latest direct deposit forms submitted by employees (including those for employees that transfer to the agency from another agency) are retained for the necessary time to ensure compliance with the Arizona State Library Archives and Records retention schedule.

Finding 2: The Department should establish policies and procedures to ensure monies are spent from the proper funds.

Response: ADEQ will ensure adequate controls monitor expenditures of the vehicle emissions inspections fund (VEI) and reimburse any unallowable expenditures. Previously the Environmental Budget Reconciliation Bill (BRB) had language to permit Travel Reduction Program (TRP) costs to be paid out of the Emissions Inspection fund, but more recently this was not included in the BRB and only appeared in the Executive Budget Request (EBR). Therefore, in FY18 ADEQ requested a Legislative amendment to add TRP as an allowable use for VEI in the most recent Environmental BRB, but this was not included in the final BRB.

As recommended, all Travel Reduction Program expenditures for FY 2018 have been transferred off of the Emissions Inspections fund to other fund sources. By the end of FY 2018, the Emissions Inspections fund will no longer be charged for any Travel Reduction Program expenditures unless the Legislature approves a BRB permitting it as an allowable use.

Finding 3: The Department should update and maintain a current and accurate list of all capital assets.

Response: As recommended, ADEQ will ensure that an inventory count of all capital assets is conducted. ADEQ understands the importance of maintaining the most up-to-date financial information and has prioritized the continual improvement of its operations including the departmental procedures and controls over capital assets. During FY 2018, ADEQ implemented internal controls and procedures to remediate this finding. This was a multi-step process, including developing standard work for acquisitions, inventory and dispositions of capital assets. ADEQ is currently in the process of conducting a physical inventory of its capital assets, which is planned to be completed by the end of June 2018.

The Arizona Department of Environmental Quality would like to thank the Office of the Auditor General for its comprehensive review. The results provide us with the opportunity to better protect and enhance public health and the environment.

Sincerely,

Russell Gardner
CFO/Director of Business & Finance

